

22 June 2023

Global Markets Research

Daily Market Highlights

22 June: Powell reaffirmed higher rate path

Fed Chair Powell stayed hawkish and reiterated possibility of more rate hikes this year

Global equities and bond markets came under pressure; DXY retreated

Upside surprises in UK CPI cemented the case for at least 25bps BOE rate hike today

- The three benchmark US equity indices ended in the red for the 4th consecutive day, stoke by Fed Chair Powell's hawkish comments reiterating the possibility of further increases in the Fed funds target rate this year. Resurfacing US-China tension following President Biden's "dictatorship" remark on President Xi also exerted pressure on risk sentiments. Tech stocks led the decline, with the NASDAQ plunging 1.2% d/d, while the Dow and S&P500 lost 0.3-0.5% d/d. Over in Europe, the Stoxx Eur 600 shed 0.5% while the FTSE100 slipped 0.1% d/d. Asian equities settled mixed, with the Nikkei 225 added 0.6% but HSI and China equities lost 1.0-2.0% on the day.
- Bonds were equally under pressure spanning from Europe to the US. UST yields were seen adding between 0-3bps up to the 7Ys and closed flat in the longer tenures while in Europe, the 10Y yields were generally higher by 1-7bps. Yields on the 10Y UK gilt added 7bps to 4.40% while the 2s jumped 10bps to 5.02%, back above the 5.00% level again.
- On the FX front, the DXY gapped down post Powell's hawkish comment, from an intraday high of 102.71 to a low of 102.02. The Dollar Index last closed near its day-low at 102.07, down 0.5% d/d. The EUR advanced 0.6% to 1.0986 while the GBP ended just above the flatline at 1.2770, erasing all losses printed after the release of upside surprises in UK CPI that stoke fear of a faster pace of BOE rate hikes (some toying 50bps hike) that would hasten and heighten the risk of a UK recession. Asian currencies traded mixed, with the IDR and SGD leading the gainers, with KRW and THB on the other end of the spectrum. MYR traded mixed against its regional peers and weakened 0.1% against the USD to 4.6450 as at Wednesday's close.
- Global oil prices rebounded with the Brent settling at \$77.12/ barrel (+1.6% d/d) and the WTI at \$72.53/ barrel (+2.9% d/d) on reports of a decline in US stockpiles.

Smaller increase in US mortgage applications

- Mortgage applications increased at a slower pace of 0.5% w/w for the week ended 16-Jun (prior: +7.2% w/w), but still managed to mark its first back to back increase in three months. The smaller gain was due to slower increase in new purchases (+1.5% vs +7.6% w/w) while refinancing fell again by 2.1% w/w. This proved that last week's 6.0% jump was just a blip despite the slight decrease in 30-year mortgage rates to 6.73% (prior 6.77%), suggesting it is still premature to conclude on an improving housing market.

Key Market Metrics

| | Level | d/d (%) |
|--------------------|-----------|---------|
| Equities | | |
| Dow Jones | 33,951.52 | -0.30 |
| S&P 500 | 4,365.69 | -0.52 |
| NASDAQ | 13,502.20 | -1.21 |
| Stoxx Eur 600 | 457.01 | -0.50 |
| FTSE 100 | 7,559.18 | -0.13 |
| Nikkei 225 | 33,575.14 | 0.56 |
| Hang Seng | 19,218.35 | -1.98 |
| Straits Times | 3,223.66 | 0.11 |
| KLCI 30 | 1,393.45 | 0.37 |
| FX | | |
| Dollar Index | 102.07 | -0.46 |
| EUR/USD | 1.0986 | 0.62 |
| GBP/USD | 1.2770 | 0.04 |
| USD/JPY | 141.88 | 0.29 |
| AUD/USD | 0.6797 | 0.18 |
| USD/CNH | 7.1768 | -0.08 |
| USD/MYR | 4.6450 | 0.10 |
| USD/SGD | 1.3404 | -0.22 |
| Commodities | | |
| WTI (\$/bbl) | 72.53 | 2.88 |
| Brent (\$/bbl) | 77.12 | 1.61 |
| Gold (\$/oz) | 1,933.30 | -0.11 |
| Copper (\$\$/MT) | 8,602.50 | 0.64 |
| Aluminum(\$/MT) | 2,223.00 | -0.31 |
| CPO (RM/tonne) | 3,775.50 | -0.09 |

Source: Bloomberg, HLBB Global Markets Research

UK's core inflation unexpectedly scaled to a three-decade high reaffirming a 25bps BOE hike

- UK's headline and core inflation rate came above expectations for the fourth month, expanding by +8.7% y/y and +7.1% y/y respectively in May (Apr: +8.7% y/y and +6.8% y/y). The latter was the fastest pace since March 1992 driven by rising prices for air travel, recreational and cultural goods and services, as well as second-hand cars. In tandem with this, the highly watched services inflation also accelerated to +7.4% y/y (Apr: +6.9% y/y), suggesting still intense underlying price pressure and reaffirming expectations that the Bank of England will deliver a 25bps rate hike today.
- Separately, data showed that factory gate prices eased more than expected to +2.9% y/y for the same month (Apr: +5.2% y/y), its lowest since Mar-21, weighed down by lower prices for refined petroleum products. PPI input prices also decelerated sharply from +4.2% y/y to a mere +0.5% y/y in May, due to decline in prices of materials purchased and slower increase in fuels and all manufacturing core input prices. This offered some reprieves that supply-driven price pressure was easing.
- House Price Index softened for the 6th straight month, albeit less than expected to 3.5% y/y in April (Mar: +4.1% y/y), marking its smallest gain since Sept-20. Softer gain in house prices was evident across the broader UK except for London and the North East region.
- CBI Trends total orders unexpected improved to -15 in June (May: -17), its best reading this year as a rebound in output expectations for the next three months and improvement in finished stocks offset worsening export orders. Meanwhile, the survey showed selling prices eased more than expected to 19 (May: 21).

Australia's Leading Index worsened in May

- The Westpac Leading Index worsened to -0.27% m/m in May (Apr: -0.03% m/m) as the sub-indices capturing world growth, dwelling approvals, commodity prices and job confidence deteriorated over the month. Negative prints since August point to below trend GDP growth for Australia for the rest of 2023 and probably, into 2024.

House View and Forecasts

| FX | This Week | 2Q-23 | 3Q-23 | 4Q-23 | 1Q-24 |
|---------|-----------|--------|-------|-------|-------|
| DX | 101-104 | 100.97 | 99.96 | 97.96 | 96.98 |
| EUR/USD | 1.07-1.11 | 1.10 | 1.11 | 1.12 | 1.13 |
| GBP/USD | 1.25-1.29 | 1.24 | 1.25 | 1.24 | 1.24 |
| USD/JPY | 139-143 | 131 | 130 | 128 | 128 |
| AUD/USD | 0.67-0.70 | 0.68 | 0.68 | 0.69 | 0.70 |
| USD/MYR | 4.58-4.65 | 4.39 | 4.35 | 4.31 | 4.28 |
| USD/SGD | 1.33-1.35 | 1.31 | 1.30 | 1.27 | 1.26 |

| Rates, % | Current | 2Q-23 | 3Q-23 | 4Q-23 | 1Q-24 |
|----------|-----------|-----------|-----------|-----------|-----------|
| Fed | 5.00-5.25 | 5.00-5.25 | 5.00-5.25 | 5.00-5.25 | 5.00-5.25 |
| ECB | 4.00 | 4.00 | 4.25 | 4.25 | 4.25 |
| BOE | 4.50 | 4.75 | 4.75 | 4.75 | 4.75 |
| BOJ | -0.10 | -0.10 | -0.10 | -0.10 | -0.10 |
| RBA | 4.10 | 4.10 | 4.10 | 4.10 | 4.10 |
| BNM | 3.00 | 3.00 | 3.00 | 3.00 | 3.00 |

Source: HLBB Global Markets Research

Up Next

| Date | Events | Prior |
|---------|---|----------|
| 22-June | MA Foreign Reserves | \$112.7b |
| | UK Bank of England Bank Rate | 4.50% |
| | US Chicago Fed Nat Activity Index (May) | 0.07 |
| | US Initial Jobless Claims | 262k |
| | US Existing Home Sales (May) | 4.28m |
| | US Leading Index (May) | -0.60% |
| | EC Consumer Confidence (Jun P) | -17.4 |
| 23-June | US Kansas City Fed Manf. Activity (Jun) | -1 |
| | AU Judo Bank Australia PMI Mfg (Jun P) | 48.4 |
| | AU Judo Bank Australia PMI Services (Jun P) | 52.1 |
| | UK GfK Consumer Confidence (Jun) | -27 |
| | JN Natl CPI YoY (May) | 3.50% |
| | JN Jibun Bank Japan PMI Mfg (Jun P) | 50.6 |
| | JN Jibun Bank Japan PMI Services (Jun P) | 55.9 |
| | MA CPI YoY (May) | 3.30% |
| | SI CPI YoY (May) | 5.70% |
| | UK Retail Sales Inc Auto Fuel YoY (May) | -3.00% |
| | EC HCOB Eurozone Manufacturing PMI (Jun P) | 44.8 |
| | EC HCOB Eurozone Services PMI (Jun P) | 55.1 |
| | UK S&P Global/CIPS UK Manufacturing PMI (Jun P) | 47.1 |
| | UK S&P Global/CIPS UK Services PMI (Jun P) | 55.2 |
| | US S&P Global US Manufacturing PMI (Jun P) | 48.4 |
| | US S&P Global US Services PMI (Jun P) | 54.9 |
| | US Kansas City Fed Services Activity (Jun) | 3 |

Source: Bloomberg

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